

**Statement of the American Textile Manufacturers
Institute**

Regarding:

**“The Current State of U.S. Manufacturing and the
Impact of the Manufacturing Recession”**

**U.S. Senate Committee on
Commerce, Science and Technology**

June 21, 2001

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national trade association of the United States textile industry. The combined U.S. fiber/textile sector, which includes cotton and wool growers, man-made fiber producers, yarn spinners, knitters, weavers and home furnishings manufacturers is one of the largest manufacturing sectors in the United States, employing over 600,000 workers and representing over \$100 billion in sales.

The topic of this hearing - - current conditions of U.S. manufacturing and the impact of the manufacturing recession - - is a particularly timely and important one to the U.S. textile industry. Rarely, if ever, has a major manufacturing sector such as textiles, one which has successfully weathered the Great Depression and 12 subsequent recessions, seen its fortunes contract as swiftly and as devastatingly as they have over the past three and a half years.

To put the current crisis in perspective, in 1997, the U.S. textile industry posted record shipments, near-record profits, near-record investment in new plant and equipment, record fiber consumption, record productivity growth and record exports.

Last year, the industry posted its first ever annual loss (over \$350 million) and has experienced three years of declining shipments and fiber consumption and three years of sharply declining prices. This year the crisis in the industry deepened further - - in the first six months of the year, at least 44 U.S. textile mills have closed their doors, including two textile companies that had been in business for over 100 years. In May 2001 alone, 9,000 U.S. textile workers lost their jobs. Over the past twelve months, ten percent of the textile workforce - - 56,000 workers - - lost their jobs.

Devastating Effects of Ongoing Asian Currency Devaluations

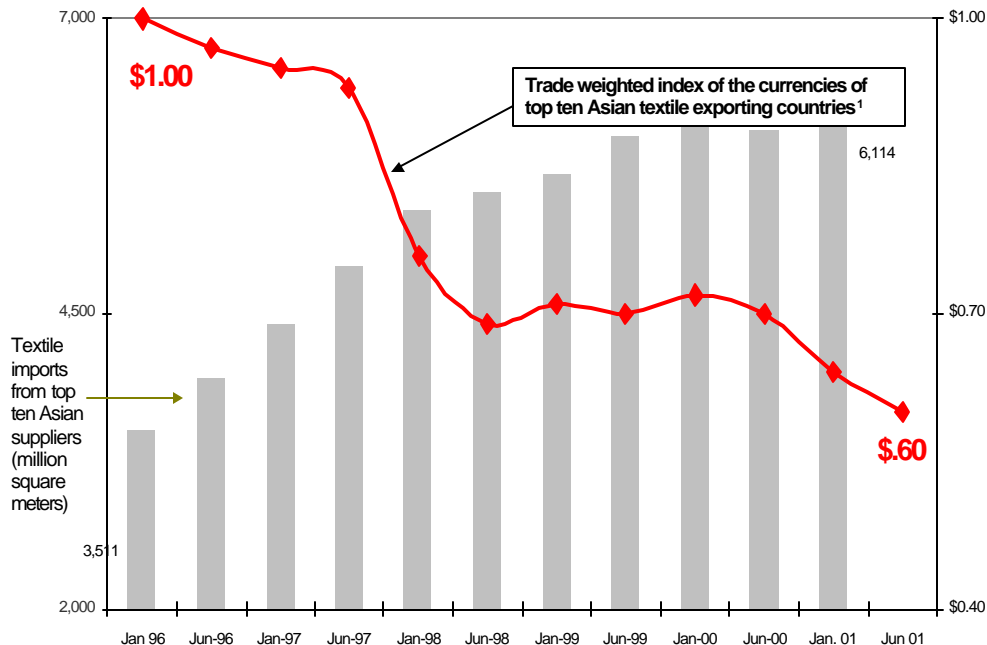
The catalyst for the current crisis is the severe Asian currency devaluations that began in June 1997 and have continued to this day. As the accompanying chart shows, since 1997 the currencies for the top ten Asian textile-exporting countries have declined on average by 40%. The currencies of India, Indonesia, Pakistan, the Philippines, Sri Lanka and Taiwan are now at record lows. Imports of textiles from these and other Asian countries, after years of relatively low growth, have jumped 80% over the past four years.

In the face of these depressed import prices, U.S. producer prices for yarn and fabric have fallen sharply over the past three years. In late 1998 and 1999, U.S. textile profits began to plummet; in 2000, they turned sharply negative. This year, bankruptcies and mill closures escalated sharply as cash flows all but disappeared. ATMI President Charles Hayes describes current industry conditions "as the worst I've seen them in 50 years in the industry."

This devastation has not only been wrought by artificially low Asian currencies. Unfortunately, U.S. government policy as well as flawed international agreements have added to and deepened the current textile crisis

Asian Currencies are 40% Below Pre-Crisis Levels

In last 12 months, currencies have declined by additional 14%



Source: ATMI

The rest of this statement examines the role that U.S. government policies have, unwittingly or not, played in contributing to the current crisis. It concludes with a number of urgently needed action steps by the government to rebalance the competitive situation.

U.S. Government Inaction & Flawed Policy-Making

While the textile crisis was precipitated by the collapse of Asian currencies, U.S. government inaction and flawed policies have made the crisis much worse. In particular, ineffective or harmful U.S. government trade policies at the Commerce Department, the United States Trade Representatives Office, the Treasury Department and the U.S. Customs Service have cost the U.S. textile industry billions of dollars of lost sales a year and thousands of jobs. With the onset of the weak economic conditions in the United States, these policies have become a strong contributing factor in the devastation that is occurring today in the U.S. textile sector.

¹ Trade-weighted index is made of the top ten Asian textile exporters to the United States: Pakistan, Thailand, India, South Korea, Taiwan, Indonesia, Philippines, Japan, Sri Lanka and Hong Kong (listed by volume). Note that China is excluded because China uses export tax rebates to devalue its currency and sector specific figures for those rebates are not available. However, China reported last year that its use of rebates was at record levels and had increased by 94% over the previous year. Source: currency information - Oanda, Inc.; trade information - U.S. Dept. of Commerce.

Ineffective or Harmful U.S. Policies

1. U.S. Customs: Refuses to Make Textile Fraud a Priority Despite Documentation of Dramatically Increased Smuggling From Asia
2. U.S. Treasury: Strong Dollar Policy Contributes to Artificially Low Asian Textile Prices
3. USTR: Continues to Ignore Industry Requests to Make Textile Market Access a Priority
4. Commerce Department: Regulations Hamstring Industry Efforts to Attack Illegal Dumping and Subsidization

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1. U.S. Customs: Refuses to Make Textile Fraud a Priority Despite Documentation of Increased Smuggling

Widespread Customs fraud totals billions of dollars annually and represents lost sales and jobs for U.S. textile industry. While U.S. Customs as well as the U.S. domestic industry have repeatedly documented a continuing flood of illegal textile transshipments through dozens of countries, U.S. Customs has proven unwilling or unable to devote the time and effort to significantly affect the flood of Asian transshipped and smuggled goods.

In the last two years, the domestic industry has raised new concerns about increased smuggling of Asian goods that pass through Mexico or are smuggled directly into the United States as “in transit” goods. In 2000, Mexican sources estimated that hundreds of millions of dollars of goods marked “made in Mexico” but actually shipped from China and other Asian countries are sold into the domestic Mexican market. Many of these goods then enter the United States as NAFTA products and pay no duty.

Independent investigations by ATMI which have been shared with both Mexican and U.S. Customs have also shown increasingly large amounts of smuggling of Asian textile and apparel products on the U.S. side of the border, usually going through San Diego, Nogales or Laredo and often marked as “in bond” or “in transit”² goods.

² “In bond” or “in transit” refers to goods that are supposed to be transiting U.S. territory but not entering U.S. commerce. U.S. Customs does not inspect these goods and electronically “wipes” entries once shipments supposedly exit U.S. territory. Smugglers take advantage of the lack of Customs oversight to send Asian goods “in transit” to Mexico but then to divert them while in the United States into U.S. commerce. The goods not only avoid quotas but duties as well.

To its credit, the Mexican government has cracked down hard on its side of the border, seizing thousands of containers of illegal Asian textile products and replacing dozens of ineffective or corrupt customs officials. The U.S. Customs Service, despite its own internal reports that estimate up to half a billion dollars in Asian goods are being smuggled as “in transit” goods, has yet to act in an effective manner.

2. U.S. Treasury: Strong Dollar Policy Keeps Asian Prices Artificially Low

Since the Asian financial crisis began in 1997, the U.S. government has promoted a “strong dollar” policy partly in order to assist Asian economies in exporting their way out of the crisis caused by widespread government mismanagement of financial sectors across Asia and partly to avoid U.S. inflationary pressures. The U.S. government effort has “worked.” Asian textile exports have risen 80% and Asian economies are again showing positive growth rates.

On the domestic side, however, the strong dollar policy has helped to unleash a flood of artificially low-priced Asian exports that has created a enormous swath of destruction in what had been a profitable, growing industry, one consistently ranked as among the most modern and productive in the world. Entire domestic textile complexes, full of state of the art equipment, are now being dismantled and sold, often to Asian manufacturers, at fire-sale prices. The strong dollar has also paralyzed U.S. textile exports - - formerly a strong growth area - - which make up nearly 15 percent of textile output.

By continuing to promote the strong dollar, particularly during weak economic times at home, the U.S. government encourages this predatory behavior to continue full force.

The damage has not been limited to just the textile sector. The National Association of Manufacturers (NAM), in a letter to Secretary O'Neill, has called the effects of the strong dollar “staggering.” NAM noted that “a growing number of American factory workers are being laid off principally because the dollar is pricing our products out of markets—both at home and abroad.”³

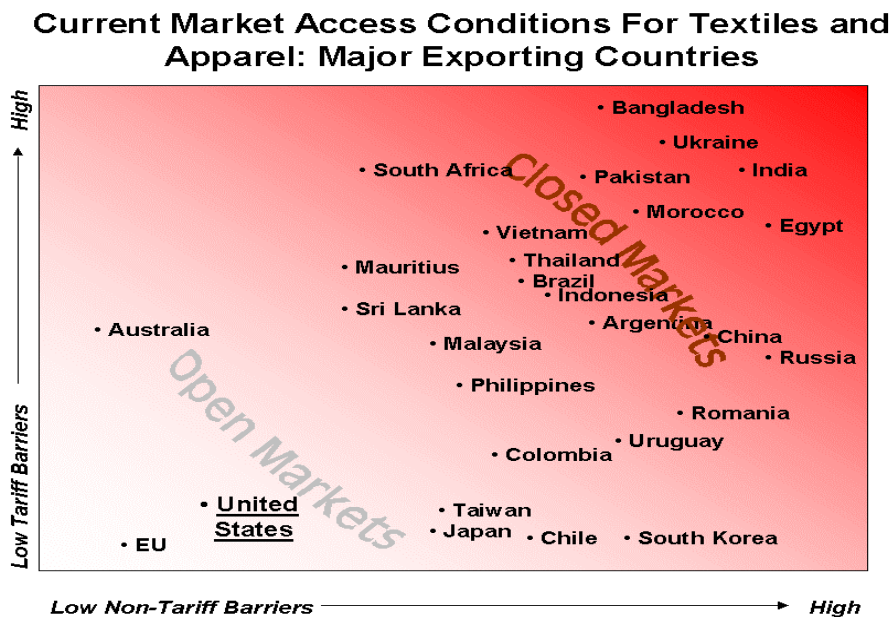
3. USTR: Continues to Ignore Repeated Textile Requests to Make Market Access a Priority - - While U.S. Government Doubles Access for Asian Textile Exporters

In 1994, as part of the Uruguay Round Agreements Act, the U.S. government assured the domestic textile industry that it would get market access to lucrative Far Eastern markets that have been closed to U.S. textile exports for generations. The government also included in the legislation, punitive measures that were supposed

³ June 4th, 2001. For a copy of a press release and the letter, go to:
<http://www.nam.org/tertiary.asp?TrackID=&CategoryID=1&DocumentID=23097>

to be invoked if the major textile exporting countries in Asia continued to keep their markets closed.

Seven years later, not only have these market openings failed to materialize, but the U.S. government has refused to take the punitive steps it promised against Asian exporters that continue to keep their markets closed. As a result, most of the textile exporting countries still block most or all U.S. textile exports from their markets⁴.



Thus, while the U.S. government has doubled access to the U.S. textile market for Asian suppliers since 1994⁵, it has gotten no new or compensating access to overseas markets for U.S. textile manufacturers. Repeated industry attempts to get the government to take action under various discretionary government vehicles, including the GSP clause, the market action provisions of the Agreement on Textiles and Clothing and Section 301 have met with almost total failure. In addition, industry attempts to get the government to list textile market access as a priority trade area have been repeatedly ignored.

4. Commerce Department: Regulations Hamstring Industry in Attacking Illegal Dumping and Subsidization - - Other Important Trade Remedies are Blocked as Well.

⁴ For an in depth look at U.S. government promises regarding market openings for U.S. textile products see "Promises Unkept: A Report on U.S. Textile Access" at <http://www.atmi.org/Promises.pdf>.

⁵ The United States agreed as part of the Uruguay Round Agreements to progressively increase textile and apparel market access into the United States for Asian countries.

Since the Asian financial crisis caused Asian economies to go into recession, reports of dumping of textile products from Asia have been on the upswing. In particular, textile imports from China, Indonesia, Korea, Pakistan, and Thailand have been entering the United States at prices even below those that deflated Asian currencies could support.

However, in many instances, U.S. Commerce regulations prevent U.S. textile manufacturers from taking effective actions against dumped Asian goods. Under current U.S. dumping laws, Asian producers of dumped textile products can often make minor technical changes to their products in order reclassify them under a different tariff line and thereby avoid dumping margins.

In addition, countervailing duty (CVD) rules developed by the Commerce Department, which are aimed at illegal subsidies, are also limited in their effectiveness. The Commerce Department refuses to allow CVD cases to be brought against non-market economies, despite the fact that these economies often subsidize their exports to a much greater degree than market economies. In cases like China, government subsidies for state-owned textile mills - - which have lost money in six out of the last seven years - - provide Chinese exporters with a large, and unfair, competitive edge. This situation will worsen when Vietnam, with its large state-owned sector, receives NTR tariff treatment.

ATMI would also like to note that two important trade remedies, the 201 petition and imposition of category specific quotas, are also of limited use to the domestic industry. A sector-wide 201 petition, which the Administration is pursuing on behalf of the domestic steel industry, should also be available to the domestic textile industry. However, the Uruguay Round Agreements Act denies the industry recourse to such a petition for products which are subject to quota coverage⁶.

In addition, in many instances over the past five years, textiles or apparel from WTO member countries have surged into the U.S. market. The U.S. government has rarely established quotas on these products for fear of challenges by the WTO's Textile Monitoring Body (TMB), a non-binding review panel dominated by developing countries.

Since being formed in 1995, the TMB has erected voluminous new technical requirements for making a case for a new quota. These new TMB-imposed requirements are often impossible to meet in the United States⁷ and, rather than

⁶ The Administration should consider initiating 201 actions in those instances, though limited, that it can be employed.

⁷ Since the TMB requirements were imposed, the U.S. government has required trade associations and groups to provide the additional data to meet the requirements. However, the American Apparel and Footwear Association, which consists mainly of apparel companies that import much more product than they produce in the United States, refuses to supply the data. As a result, the U.S. government no longer imposes restraints against surging apparel imports from WTO members. Note that domestic textile industry companies that produce fabric for apparel have been hit the hardest of any textile sector by the recent surge from Asia.

protest their inequity, the U.S. government has essentially stopped seeking new quotas despite record import surges over the last few years. In some cases, damaging surges have come from non-WTO countries. Such surges are quickly addressable through the use of Section 204 import quotas, which cannot be reviewed by the TMB. However, in some instances, the U.S. government has refrained from acting despite the clear presence of market disruption in the United States.

Government Actions Urgently Needed to Rebalance the Competitive Arena

During this time of economic crisis for the domestic industry, the U.S. textile industry needs its government to move swiftly to rebalance the competitive situation. Actions should include:

- A) Self-initiation by the U.S. government of dumping and countervailing duty, escape clause or other unfair trade cases against Asian countries that are dumping into the U.S. market and illegally subsidizing their exports; or otherwise injuring U.S. textile producers and workers.**
- B) A commitment by the U.S. government not to lower textile and apparel tariffs during or prior to upcoming WTO negotiations;**
- C) New, effective efforts by U.S. Customs to curb textile and apparel transshipments and smuggling, particularly those involving preferential duty claims and in-transit shipments, and**
- D) A comprehensive effort by the U.S. government to open up the many markets that are still closed to U.S. textile products including the use of punitive actions against those countries that continue to block U.S. access**
- E) Quota calls – Regarding WTO member countries, the United States should challenge the TMB, not the other way round, regarding its impossible data requirements. The United States should move forward and introduce quota restraints wherever market disruption is occurring, regardless of TMB protestations. For non-WTO countries, the United States should use Section 204 to introduce restraints to the fullest extent possible against non-WTO countries.**
- F) The United States should reject all attempts at the WTO by Asian textile exporting countries to speed up the quota phase-out schedule agreed to in the Uruguay Round or to liberalize other provisions of the Agreement on Textiles and Clothing. Recently, a number of these countries have pressed the Administration for new changes to the agreed upon rules and schedules governing textile and apparel trade in order to get yet more access to the U.S. market. These new efforts, coming from countries**

that continue to block U.S. textile access to their own markets and which have already enjoyed a doubling of their own access to the U.S. market, must be rejected.

In addition, ATMI urges the U.S. government to abandon its strong dollar policy, which is putting into peril the livelihoods of hundreds of thousands of U.S. manufacturing workers across this country.